



# INFORM

Accounting & Auditing Update, News, Information and QAO Views

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## ESSENTIAL READING in this issue -

- Capitalisation of Software
- Accounting for Grants and Contributions
- Disclosure of Remuneration for GOC Directors
- Asset Revaluation Index Revisited
- AAS 38 and Deprival Value
- GST
- New Terminology in the Corporations Law



## About Inform

INFORM provides information on emerging issues with an emphasis on those relevant to the public sector and QAO's perspectives on these issues. INFORM also provides information on new and revised accounting and audit pronouncements and changes to the Corporations Law.

If you have a particular topic which you would like addressed in this publication, please contact the Technical Services Section of the Queensland Audit Office and we will attempt, wherever possible, to meet your request.

We may be contacted on our email address -

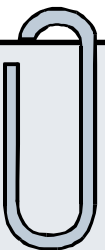
[qao.ts@uq.net.au](mailto:qao.ts@uq.net.au)



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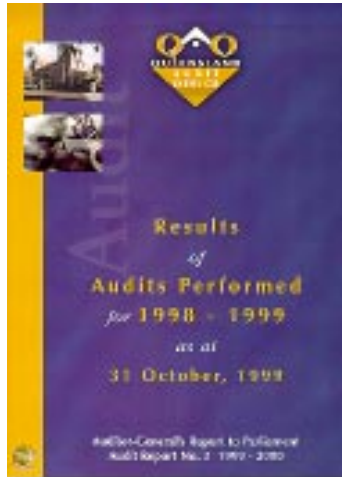


## QAO Update

### Auditor-General's Reports to Parliament

#### Audit Report No 3

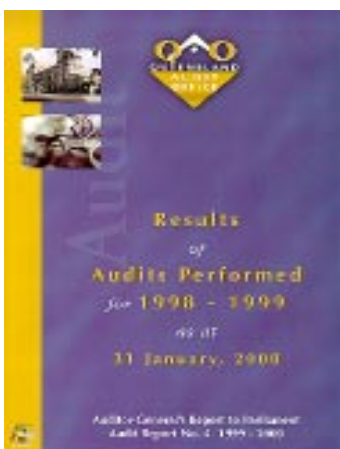
was tabled in Parliament on 8 December 1999. As the second general report on audits in the series for 1999-2000, this Report includes the results of Audits performed for 1998-99 as at 31 October 1999. As the primary report on the outcome of public sector audits for



1998-99, it comments on the timeliness of preparation of financial statements by departments and provides detailed reporting of audit findings and recommendations by Ministerial portfolio. It also contains comment on current and emerging issues within the Queensland Public Sector including the competitive neutrality fee, managing for outcomes initiative and advertising.

#### Audit Report No 4

was tabled in Parliament on 22 March 2000 and includes the results of audits completed as at 31 January 2000. This Report includes an update on the recommendation from the strategic review of QAO and the PAC



inquiry into this. The Auditor-General provides comment on the increasing number of entities where concerns have been expressed on their ability to

continue operating on a going concern basis. The Report also contains details of progress on the audits of Local Governments and Aboriginal and Island Councils. Current and emerging issues discussed in this Report include government advertising arrangements and the goods and services tax.

### 2000 Contract Auditors' Conference

The annual QAO Conference for Contract Auditors was held in Brisbane on 7 – 8 April 2000, with the theme, *Taking Care of Business - Auditing in the New Millennium*. The Auditor-General engages contract auditors to perform the audits of a number of public sector entities on his behalf. This conference enhances communication between contract auditors and QAO and allows the consideration and discussion of current issues.

The year 2000 Conference was well attended and provided an excellent networking opportunity for both QAO staff and contract auditors. QAO received positive feedback on the standard of papers and presentations.

A limited number of Conference papers are available at a cost of \$25 each. Topics included in the Conference papers are –

- Valuation of Infrastructure Assets (including input from two valuation firms);
- Practical Computer Systems – An Excel Approach;
- Advanced Excel – Audit Application;
- Assessing IT Controls in Small Entities and the Effect on Audit Approach;
- The CJC and Contract Auditing – An Alliance in Combating Corruption by the CJC;
- Are You Taking Care of Business - by a Contract Auditor;
- Governance, The Key to Improved Performance;
- Adding Value Through Improved Corporate Governance; and
- What's New in Accounting and Auditing.

If you would like a copy, contact Mrs Keryn Dent on (07) 3405 1161.

## Topical Issues

### Goods and Services Tax



#### Accounting Treatment

Queensland Treasury issued Financial Circular 99/7 on 16 December 1999 attaching the Cabinet endorsed policy entitled *Interim Financial Accounting Arrangements and the Preparation of Financial Statements Guideline for GST*. The accounting treatments of GST transactions detailed in the policy mirrors those detailed in UIG 31, *Accounting for the Goods and Services Tax* (Jan 2000) which is based on current international accounting practices. The prescribed accounting treatment includes -

- revenues must be recognised *net* of GST;
- expenses and assets must be recognised *net* of GST that is recoverable from the taxation authorities;
- receivables and payables must be recognised *inclusive* of GST; and
- cash flows must be presented in the statements of cash flows on a *gross* basis. The GST component of cash flows relating to investing and financing activities which is recoverable from or payable to the taxation authorities must be classified as operating cash flows.

#### Registrations

The application process for Australian Business Numbers (ABN) and GST registrations in respect of the *core* agencies, being the 24 departments and 5 selected non-Ministerial agencies is now complete. The *non core* agencies have until 31 May 2000 to lodge their application/registration directly with the Australian Taxation Office. Queensland Treasury's GST Implementation Unit (GIU) is responsible for providing a "proof of identity" to accompany the forms prior to lodgement with the Australian Taxation Office.

#### Specific Considerations

Certain very small public sector enterprises may not consider it worthwhile to obtain an ABN or register for GST. The consequences of not doing so are -

1. The lack of an ABN will result in 48.5% withholding tax being mandatorily deducted from all income received from other business entities.
2. The inability to claim Input Tax Credits.

Some public sector entities will have already paid GST in respect of prepaid supplies that span the introduction of GST on 1 July 2000. It is possible that in some cases, the GST component paid in respect of such a supply may not have been accounted for in accordance with Financial Circular 99/7, causing a "leakage" of Input Tax Credits.

In these circumstances, it will be necessary for the agency to isolate GST amounts already paid and make the necessary accounting adjustments to transfer payments to the appropriate GST control account and correspondingly reduce the account to which a payment was expensed, to claim eligible amounts.

#### Audit Requirements

The Queensland Audit Office has been assessing the progress of the GST implementation process in all public sector entities including statutory bodies and Government Owned Corporations.

As with any other financial statement account balances, audit will require substantiation of the balance of each asset and liability balance of GST control/clearing accounts at 30 June 2000.

It is QAO's expectation that in respect of financial periods ending after 1 July 2000, audit will require -

1. A copy of each Business Activity Statement completed in the financial period, which can be verified to supporting figures in the financial statements, including fully referenced work papers where necessary; and
2. Substantiation of each asset and liability balance of GST control/clearing accounts.

## QAO Fees

QAO audit fees, like other services, will be taxable supplies for GST purposes from 1 July onwards. Irrespective of the period to which an audit relates, any audit work performed from 1 July this year will be subject to GST. QAO expenses such as travel and accommodation will also be *inclusive* of the GST incurred.

It is QAO's intention to invoice the majority of its clients for audit work performed and expenses incurred up to and including 30 June 2000, in order to provide a clear distinction between services performed pre and post GST.

From 1 July 2000, QAO invoices for audit services will generally include the following components -

- Audit Fees – exclusive of GST;
- Expenses – exclusive of GST; and
- Total GST applicable to both audit fees and expenses.

## Minimum Reporting Requirements (MRRs) – Budget Sector Agencies

The MRRs were issued by the Treasurer on 11 May 2000 to assist departments in the preparation of their departmental general purpose financial statements. There have been a number of changes made from the 1998-99 MRRs. These include -

- “• *No comparatives are required for the Statements of Outputs/Major Activities as 1999-2000 is the first year in which outputs are required to be reported.*
- *A new section has been included on variations to accounting policies as a result of the revision of Australian Accounting Standard, AAS6 Accounting Policies.*
- *New formats have been set for departmental Operating Statements, Statements of Financial Position, Statements of Cash Flows and Statements of Outputs/Major Activities.*
- *Provisions for long service leave are no longer permitted given the new long service leave scheme.*

- *There is clarification that losses and special payments do not include losses on the disposal of non-current assets or the provision for doubtful debts.*
- *There is clarification that where contributions such as grant arrangements involve reciprocity, revenue/expenses should be accrued over the term of the funding arrangements rather than being recognised fully in the year in which the funding is received/paid.*
- *Appropriation revenue recognised in the controlled and administered Operating Statements is now called 'output revenue' and 'administered item revenue' respectively.*
- *Disclosure is required of the reconciliations from the original Budgeted appropriations to the output revenue and administered item revenue recognised in the Operating Statements. This is in lieu of the former Statement of Appropriations prepared by departments.*
- *Where it is not practicable to account for a Machinery of Government (MOG) change as at the actual date of gazettal, the operative date of the transfer may, under the MRRs, be taken as the nearest end of month figures adjusted for any material transactions during the intervening period. Both agencies must agree to the operative date of the transfer and the amount of assets/liabilities transferred.*
- *The MRRs now require that assets and liabilities assumed or transferred by a department as a result of MOG changes be recognised and disclosed as a direct adjustment to General Equity. The Operating Statement no longer contains a separate line item for 'Net Revenues from Restructuring'.*
- *From 1999-2000, new intangibles with a value greater than the maximum recognition threshold of \$50,000 must be recognised by departments and amortised.*

- *Provisions for future or deferred maintenance may no longer be recognised. Any prior period balance must be eliminated against the opening accumulated surplus/deficiency as at the beginning of the current reporting period.*
- *A reconciliation is required to be disclosed for the opening and closing balances of each class of equity, including equity injections, withdrawals and transfers.*
- *Time bands for the disclosure of commitments have been reduced from four to three and, to the extent that it can be determined reliably, the value of commitments should be shown gross of any applicable GST with applicable input tax credits receivable also disclosed.*
- *New sections have been included in respect of the accounting and disclosure requirements for the Goods and Services Tax, Equity Return and Public Infrastructure Arrangements.*
- *The confirmation process for intra-government transactions and balances now should commence within two weeks after the end of each quarter and a response obtained within at least four weeks of that date.*
- *A commentary is provided in respect of new Australian Accounting Standards that will become operative from 1 July 2000.”*

*(Source - Queensland Treasury)*

## **Amortisation of Intangible Assets**

Accounting Interpretations (AIs) are issued by the Public Sector Accounting Standards Board and the Australian Accounting Standards Board in the interests of providing timely advice on the application of existing accounting standards.

AI1 addresses the application of AAS 4/AASB 1021 *Depreciation* to identifiable intangible assets. AAS 4/AASB 1021 requires the depreciable amount of a depreciable asset to be allocated on a systematic basis over its useful life (paragraph 5.1).

The Boards identified two issues in relation to the amortisation of identifiable intangible assets -

**Issue 1**      **Whether identifiable intangible assets including brand names, mastheads, licences and trademarks fall within the definition of “depreciable asset” in AAS 4 and AASB 1021.**

### **Response**

AAS 4 and AASB 1021 comment that —

*In common with physical assets, most intangible assets held on a long term basis have limited useful lives. In the case of some, for example, lease rights, patents, trademarks, copyrights, licenses and franchises, the service potential of the particular rights or entitlements will be available only for a limited term of known duration, fixed by statute or agreement. In the case of others, for example, research and development or promotion expenditures carried forward as assets, the period of time over which the benefits from those expenditures will be available is not precisely ascertainable. Nevertheless, the nature of the benefits is inevitably such that they must be assumed to expire in time. (paragraph 5.5.4).*

Therefore, at the time identifiable intangible assets are initially recognised and/or upon subsequent revaluation, it is to be assumed that they have limited useful lives for the purposes of applying AAS 4 and AASB 1021. Thus, such assets will, in most cases, fall under the definition of “depreciable assets” irrespective of the periods over which future economic benefits are expected to be consumed, or whether the entity intends to incur future costs such as marketing or advertising costs to maintain the values of the assets.

Brand names, mastheads and similar identifiable intangible assets are not specifically referred to in AAS 4 and AASB 1021. The Boards’ interpretation in AI 1 is that expenditure to acquire or develop such assets is in the nature of the expenditure identified in paragraph 5.5.4 of the Standards. Therefore, the Boards are of the view that brand names, mastheads and similar identifiable intangible assets fall within the scope of AAS 4 and AASB 1021.

**Issue 2 Whether identifiable intangible assets including brand names, mastheads, licences and trademarks have depreciable amounts.**

**Response**

The values of intangible assets including brand names and licences are often expected to be maintained as a result of the effect of future inflation on asset prices and/or the incurrence of future costs, as well as the claim that intangible assets have very long useful lives. However, the Boards do not see these features as a basis for concluding that the assets do not have depreciable amounts.

In addition, because residual income relates to the net amount expected to be recovered on disposal of the identifiable intangible asset at the end of its useful life, the likelihood that the asset's residual value would be equal to or exceed its initial cost or revalued amount would be extremely remote. Thus, in most cases the Boards believe identifiable intangible assets fall within the definition of "depreciable asset" and have depreciable amounts.

**Capitalisation of Computer Software**

The Treasurer's Minimum Reporting Requirements (MRRs) for 1999-2000 have outlined the following treatment in relation to recording software -

*"For 1999-2000 onwards, new intangible assets with a value greater than the asset recognition threshold (maximum \$50,000) must, pursuant to section 45 of the Financial Management Standard 1997, be recognised for financial reporting purposes and be amortised. The asset recognition threshold must be disclosed in the notes to the accounts. Where intangible assets with a value greater than the asset recognition threshold are identified, departments should evaluate their characteristics against Statement of Accounting Concept SAC 4 Definition and Recognition of the Elements of Financial Statements criteria for asset definition and recognition.*

*A change in the asset recognition threshold for intangibles would represent a variation in accounting policy and should be included in the notes to the accounts in accordance with Australian Accounting Standard AAS 6 Accounting Policies and section 1.10 of the MRRs.*

*Upon acquisition, intangible assets should be measured in accordance with Australian Accounting Standard AAS 21 Accounting for the Acquisition of Assets (including Business Entities). It should be noted that intangible assets i.e. those without physical substance, do not fall within Queensland Treasury's guidelines for the Recording and Valuation of Non-Current Physical Assets in the Queensland Public Sector. However, the value of intangibles should be revised periodically to ensure that the values remain fair. Details of any such revaluations should be disclosed in the notes to the accounts.*

*Reference should also be made to Accounting Policy Guideline 11 (APG 11) Intangible Assets and Accounting Interpretation (AI) 1 Amortisation of Identifiable Intangible Assets."*

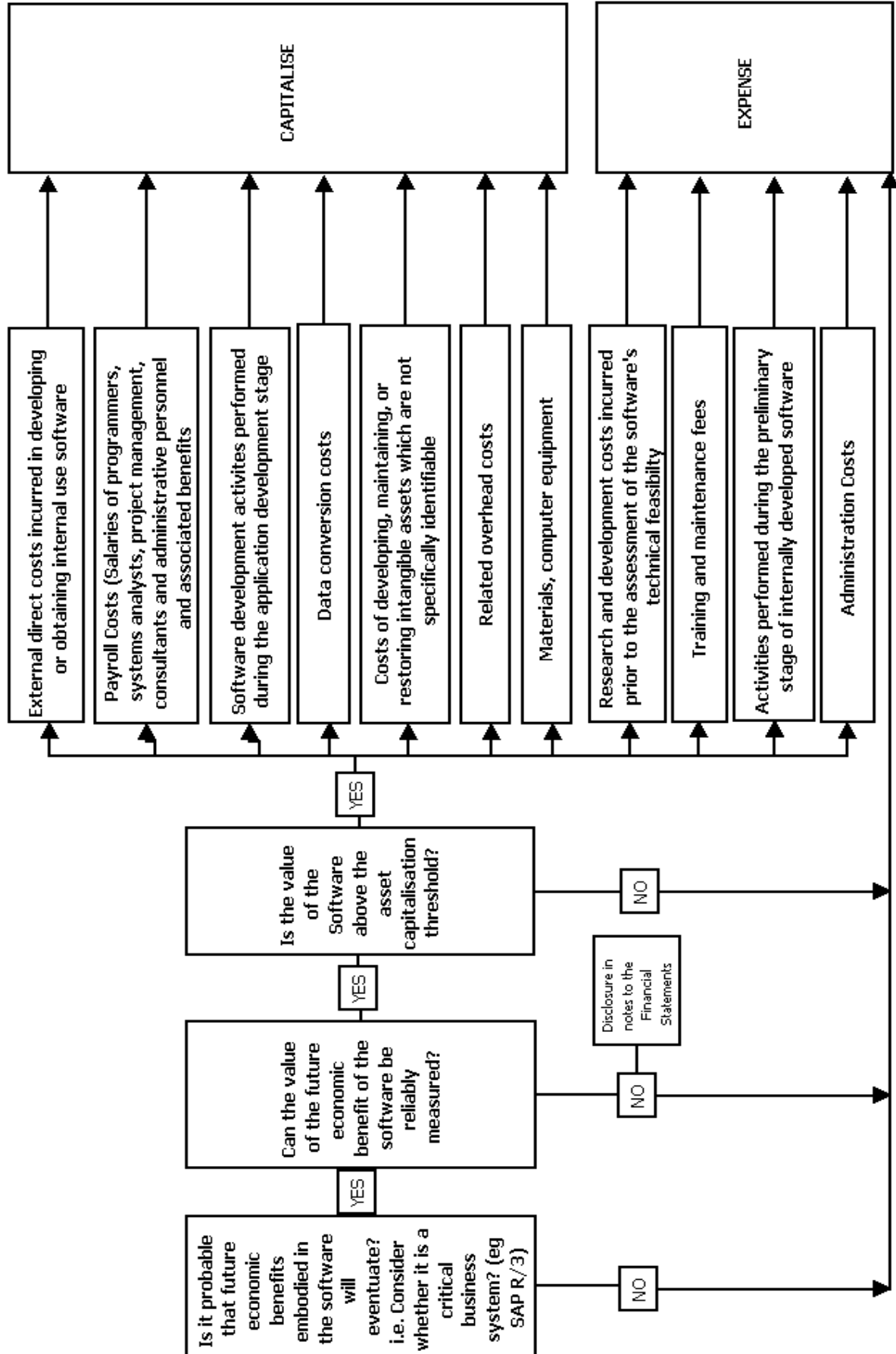
*(Source - Treasurer's Minimum Reporting Requirements)*



A flowchart outlining some of the principles in relation to the capitalise or expense decision for IT software is included on page 7 in order to provide some assistance to public sector entities.

**Further Guidance on the Accounting Treatment of Computer Software is available in Issue 3 of INFORM, released in June 1999. Copies are available from our website.**

# I.T. SOFTWARE - CAPITALISE OR EXPENSE ?



## Deprival Value and Fair Value

New accounting standard AAS38 *Revaluation of Non-Current Assets* and ED99 *Impairment of Assets* both use fair value as the acceptable valuation methodology. However, the preferred valuation methodology for the Queensland Public Sector is deprival value.

The Accounting Standards Boards have not yet reached firm conclusions on the relationship between the two valuation methods. It is proposed that they will institute a project team on this matter in the near future. For this reason, AAS38 contains transitional provisions for public sector entities up until 30 June 2002.

QAO and Queensland Treasury are liaising in relation to this matter, both with each other and with their respective national counterparts. Further information will be advised when it becomes available.



## Change in Company Tax Rates

The Urgent Issues Group issued Media Release UIG 99-8 on 20 December 1999, which stated that -

*Deferred income tax balances should be restated to reflect the lower rates of tax in financial reports for reporting periods (both half-years and financial years) ending on or after 21 September 1999, if the financial report had not yet been completed at the date of the media release.*

## Accounting for Grants and Contributions

The accounting treatment for grants and contributions is a complex issue and involves the consideration of a number of factors.

The most common form of contribution in the public sector is a grant. Grants may be categorised as either reciprocal or non-reciprocal.

These two types of transactions are defined in paragraph 99 of Statement of Accounting Concept SAC 4 - *Definition and Recognition of the Elements of Financial Statements* as follows:

*“Non-reciprocal transfer” means a transfer in which the entity receives assets or services or has liabilities extinguished without directly giving approximately equal value in exchange to the other party or parties to the transfer; and*

*“Reciprocal transfer” means a transfer in which the entity receives assets or services or has liabilities extinguished and directly gives approximately equal value in exchange to the other party or parties to the transfer.*

A reciprocal grant normally requires the grantee to comply with **certain conditions** of a **grant agreement** in order to obtain receipt of monies and to **return any unexpended grant funding** in the event of the non-delivery of, or non-compliance with those agreed grant conditions. An example of a reciprocal grant could include a specific purpose grant for capital purchases.

A non-reciprocal grant is not provided for any specific purpose. The most common type of non-reciprocal grant is a General Operating Grant.

There are several accounting pronouncements to consider in respect of the presentation and disclosure of grants in the financial statements. The considerations and reporting requirements of the following reporting entities are outlined below.

## Government Departments

### Parliamentary Appropriations

The most significant form of funding received by state government departments is Parliamentary Appropriations.

Paragraph 10.5 of Australian Accounting Standard AAS 29 *Financial Reporting by Governments* states that parliamentary appropriations over which a government gains control during the reporting period must be recognised as one of the following:

- revenue,
- a direct adjustment to equity; or
- a liability.

The commentary at paragraph 10.5.1 of AAS 29 provides the following guidance -

*“Irrespective of the designation given to a parliamentary appropriation, its recognition as revenue, a contribution by owners or a liability requires an evaluation of the characteristics of the parliamentary appropriation by reference to the definitions of revenues, contributions by owners and liabilities respectively. This ensures that the substance, rather than the form, of the parliamentary appropriation is reported.”*

Generally, the majority of a department’s appropriation represents funds for outputs and would be recognised as revenue. However, departments also receive an equity injection that would be recognised as an adjustment to equity.

### Receipt of Grants, Donations and Gifts

According to Paragraph 3.5 of the Minimum Reporting Requirements for 1999-2000 (MRRs), grants and contributions received by departments are usually in the nature of non-reciprocal funding.

The MRRs reflect the requirements of paragraph 10.10 of AAS 29 whereby grants and contributions that are non-reciprocal in nature must be recognised as revenue when the department obtains control over them - generally in the year in which the funding is received.

Paragraphs 10.11 and 10.12 of AAS 29 expand on the recognition criteria, by stating that the contributions received must be recognised at their fair value and that contributions of services must be recognised only when:

- (a) the fair value of those services can be reliably determined; and
- (b) the services would have been purchased if they had not been donated.

In the event that a grant was given with strict performance indicators and performance targets and there was a requirement to refund these moneys if the performance was not met, this could be regarded as a reciprocal grant. In this circumstance, the unused amount must be treated as a liability as provided for in the commentary in paragraph 10.12.7 of AAS 29.

### Grants and Contributions Paid

Paragraph 3.9 of the Minimum Reporting Requirements for 1999-2000 addresses the issue of grants paid by government departments.

The MRRs state the following requirements in respect of grants paid:

- where the terms of a grant or contribution have been satisfied during the reporting period, but the full amount relevant to the period has not been paid, a department must recognise an expense and a liability in respect of the present obligation at reporting date.



- if a grant or contribution has been paid in advance, the department should:
  - (a) recognise a prepayment in respect of the funds advanced to the extent that the services remain undelivered at reporting date, provided that an obligation exists for the grantee to return any unexpended funding in the event of the non-delivery of, or non-compliance with the agreed grant conditions; and
  - (b) recognise progressively an expense (and amortisation of the prepayment) for the grant payment over the period of the grant or contribution, as and when performance by the recipient (or some other event) creates an unavoidable present obligation.
- where any uncertainty exists as to whether or not a present obligation exists in terms of SAC 4, or there is doubt as to the probability or measurement of any future payment, a contingent liability should be disclosed by way of a note to the accounts.
- if the substance of the arrangements indicate the existence **only of an intention** to provide future funding, an unavoidable obligation does not exist and therefore no expense or liability should be recognised.

**Each grant should be considered individually, taking into account the terms and conditions of the respective grant agreement.**

### Statutory Bodies

It has been argued that operating grant revenue received in advance represents a liability of statutory bodies, as these moneys are appropriated for expenditure in the following year. Discussion on this topic within SAC 4 indicates that –

*“not-for-profit entities obtain assets or services to provide particular types of goods and services to consumers and beneficiaries, in accordance with their objectives. Contributions, whether restricted or unrestricted, to a not-for-profit entity are non-reciprocal transfers which are made to maintain or increase the entity’s capacity to provide those goods and services.”*

*For transfers to an entity to create a present obligation on the entity to make future sacrifices of economic benefits to particular external parties, the transfers would need to be reciprocal, whereby the transferor and transferee directly receive and sacrifice approximately equal value.”*

Most statutory bodies would satisfy the definition of a “not-for-profit entity”.

In addition, paragraph 102 of SAC 4 states that –

*“value is not received in exchange where an entity transfers assets to another entity and only derives benefit from satisfying its objectives of providing benefits to others. Accordingly, for a transfer to be reciprocal, it is not sufficient that the transferor receives benefit indirectly as a result of the transfer. For example, when a government provides a grant to a not-for-profit entity, typically it does not receive value directly in exchange. In such circumstances, it normally would indirectly receive a benefit as a result of the recipient entity deploying the grant in providing goods or services to beneficiaries which the grantor government represents.”*

The *Financial Management Standard 1997* incorporates SAC 4 as being mandatory for statutory bodies in Queensland. Therefore operating grants paid in advance to statutory bodies which are non-reciprocal in nature as per SAC 4 must be recognised as revenue at the time of receipt.

Where a grant, such as a capital works grant, provided to a statutory body is subject to specific conditions which must be met or the grant moneys are required to be refunded, the grant is usually regarded as being reciprocal in nature.

In determining whether a liability exists at balance date in relation to a reciprocal grant, the going concern assumption is taken into consideration. It is usual also to consider whether the granting body has a policy of enforcing the terms of reciprocal grants.

### **Local Government**

Paragraphs 59 to 70 of AAS 27 *Financial Reporting by Local Governments* describes the nature of contributions and prescribes the accounting treatment for contributions to local governments.

Paragraph 59 of the standard states that:

*Contributions other than contributions by owners shall be recognised as revenues when the local government obtains control over the assets comprising the contributions.*

The requirement in paragraph 59 to recognise contributions as revenue applies irrespective of whether conditions are imposed on the local government's use of the contributions. This is because contributions to a local government are considered to be non-reciprocal transfers and typically are received in the form of voluntary transfers such as grants and donations, and involuntary transfers such as rates and fines. Although involuntary transfers to local governments will normally result in the provision of goods and services to the transferors, local governments are not obliged to provide commensurate benefits, in the form of goods and services, to particular ratepayers in return for their rates.

According to AAS 27, a liability in respect of contributions received is only recognised in the following circumstances -

#### **Paragraph 67**

*If assets are provided to a local government on the condition that the local government is to make a reciprocal transfer of economic benefits, and that reciprocal transfer has not occurred prior to the reporting date, the local government will have a liability. An example of such a reciprocal transfer is where a user charge is provided to a local government in advance for repairs to a private road, which would be repaid if the works were not performed.*

#### **Paragraph 69**

*A liability and an expense would need to be recognised in respect of a contribution if and when, after recognition of the contribution as revenue, the local government fails to meet the specific conditions attaching to the contribution and the amount is required to be repaid. In these circumstances, the local government has a present obligation to a creditor that has arisen as a result of a past event, namely, the failure of the local government to meet the conditions for retention of the contribution.*

The views expressed above reflect the preferred approach to accounting for grants and contributions. However, these represent guiding principles only and it may be necessary to seek clarification on individual matters from your relevant Audit Manager.

Each grant should be considered in the context of its own situation.

## Local Government Issues

### Regional Open Forums

QAO together with representatives from the Department of Communication and Information, Local Government, Planning and Sport (DCILGPS) have introduced a series of Regional Open Forums this year to enhance understanding of new accounting and compliance issues and to improve communication with local governments and contract auditors throughout the State.

To date, Regional Open Forums have been held at Caloundra, Longreach, Toowoomba, Roma, Bundaberg and Rockhampton and have been well attended by contract auditors, council staff and valuers.

Some of the issues discussed at these forums include corporate governance, asset valuations, and national competition policy.

The joint approach by QAO and DCILGPS and the opportunity to discuss QAO's position in the regional areas prior to the end of financial year has been well received by Councils in the localities visited.

Future Forums and locations are provided below. For registration costs and details please contact Ms Julie Dainty at QAO on (07) 3405-1164.

<i>Location</i>	<i>Date</i>
<b>Townsville</b>	<b>20 June 2000</b>
<b>Cairns</b>	<b>27 June 2000</b>

### National Competition Policy

The Department of Communication and Information, Local Government, Planning and Sport (DCILGPS) has recently completed a paper titled *Full Cost Pricing in Queensland Local Government – A Practical Guide* to assist Councils in developing full cost pricing models. These guidelines will be provided to all Queensland Local Government Chief Executive Officers. DCILGPS will also be arranging training opportunities for Councils.

For additional information on this publication contact may be made with Mr David Grugeon at DCILGPS on telephone number (07) 322-58681.

### QAO Forum

A reminder that the QAO Forum is operating on the LGAQNet. Auditors, Council staff and valuers alike are reminded that this site is an effective reference point for discussing numerous issues in relation to local government issues.

**The LGAQNet can be accessed at  
[www.LGAQNet.asn.au](http://www.LGAQNet.asn.au)**

## Corporate Update



### CLERP

The Corporate Law Economic Reform Program Bill (CLERP) was passed and commenced on 13 March 2000.

Key features incorporated in the new Act were –

- corporate fundraising rules;
- a new fundraising mechanism to allow small and medium sized enterprises to raise a total of \$5 million through the use of offer information statements;
- clarifying Directors' duties with the introduction of a statutory business judgment rule. This rule provides Directors with a defence from personal liability in relation to breaches of duty of care in certain circumstances;
- a new statutory derivative action to enhance shareholders' rights to pursue an action on behalf of shareholders where the company is unwilling or unable to do so;
- an advisory body, the Financial Reporting Council, has been established to oversight the Australian Accounting Standards setting process;

- a reconstitution of the existing Corporations and Securities panel to become the main forum for resolving takeover matters; and
- investors will have the benefit of the takeover rules applying to listed managed investment schemes.

## Recent ASIC Developments

### Areas of Concern in Financial Reporting

The following areas were identified as areas requiring attention during ASICs 1998-99 review -

*Amortisation of intangible assets* – some entities failed to amortise intangible assets such as brand names, mastheads, licences, patents and trademarks.

*Environmental reporting* – inadequate reporting by a large number of entities in this area including –

- no disclosure or insufficient disclosure of the environmental regulations, risks and issues;
- no statement whether the entity had complied with the relevant environmental requirements; and
- disclosures only in respect of the parent entity.

*Directors' emoluments* – some companies did not -

- disclose the value and terms of options granted to directors and officers;
- disclose the emoluments of all or some of the five executive officers receiving the highest emoluments; and
- adequately state the policy for determining the nature and amount of emoluments or did not discuss the relationship between the policy and the company's performance.

Other matters of concern related to -

- not disclosing recent valuations of land and buildings;
- making a rotating revaluation of assets in a class of property, plant and equipment over a period exceeding three years;
- not separately disclosing revenue from operating activities;

- recording six months of profits from an entity which became controlled after year end; and
- companies and trusts reporting negative reserves.

### ASIC Surveillance

ASIC intends to focus on the following areas in reviewing financial statements of entities balanced in the second half of 1999 –

- recognition and amortisation of intangibles;
- disclosure of directors' and officers' emoluments;
- negative reserves; and
- concise financial reports.

### Financial Statements - Terminology

The amendments to the *Corporations Law* have included a number of changes in the terminology used in the presentation of financial reports.

The term *accounts* has been removed and should no longer be used.

The annual *Financial Report* under s.295(1) consists of -

- financial statements;
- notes to the financial statements; and
- directors' declaration.

Pursuant to section 295(2) of the Law, the financial statements for a financial year are -

- profit and loss statement;
- balance sheet;
- statement of cash flows; and
- if required by accounting standards, consolidated profit and loss statement, balance sheet and statement of cash flows.

Under s.295(3) of the Law, Notes to the Financial Statements are -

- disclosures required by the regulations;
- notes required by the Accounting Standards; and
- any other information necessary to give a true and fair view.

The directors' declaration, which forms part of the financial report is required under s. 295(4) to make reference to the financial statements and notes thereto.

## Disclosure of GOC Directors' and Executives' Remuneration

Government policy on the disclosure of directors' and executives' remuneration in the Annual Reports of Government Owned Corporations refers to the requirements of the Corporations Law as applicable to listed companies.

These requirements as contained in Schedule 5 of the Corporations Law Regulations are outlined in the following extract -



Income of Directors is defined in s.25(1).

### Division 4 - Other Notes to be included in the Accounts or Consolidated Accounts

#### Remuneration of Directors

*"25(2) Subject to subclause (3), the accounts for a financial period of a company must include in a note:*

- (a) the total of the income received, or due and receivable, for that financial period, by all directors of the company, directly or indirectly, from the company or from any related body corporate; and*
  - (b) the number of directors of the company whose total income received, or due and receivable, for that financial period, directly or indirectly, from the company or from any related body corporate, falls within each band of income of \$10,000.*
- (4)** *The consolidated accounts must include in a note, the total of the income received, or due and receivable, directly or indirectly, for the financial period by all directors of each entity in an economic entity from:*
- (a) corporations of which they are directors; or*
  - (b) related bodies corporate; or*
  - (c) an entity controlled by the chief entity."*

### Division 2 - Listed Corporations

#### Remuneration of Executive Officers

*"29(2) The accounts of a listed corporation for a financial period must include in a note -*

- (a) the number of executive officers of the corporation whose total income received, or due and receivable, for that financial period, directly or indirectly, from that corporation, or any related body corporate, in connection with the management of the affairs of that corporation, or any related body corporate, whether as executive officer or otherwise, falls within each \$10,000 band of income after \$100,000; and*
- (b) the total of the income referred to in paragraph (a) of all executive officers referred to in that paragraph."*

**"(3)** *The consolidated accounts for a financial period of an economic entity must, if the chief entity is a listed corporation include in a note -*

- (a) the number of executive officers of the economic entity whose total income received, or due and receivable, for the financial period, directly or indirectly, from the entities in the economic entity, or a related entity, in connection with the management of the affairs of the entities in the economic entity, or a related entity, whether as executive officers or otherwise, falls within each \$10,000 band of income after \$100,000; and*
- (b) the total of the income referred to in paragraph (a) of all executive officers referred to in that paragraph."*

## Whole of Government Issues

### Asset Revaluation Index

The Australian Bureau of Statistics has advised that the Implicit Price Deflator is still the better index to use for the purpose of asset revaluation. The figures in the Implicit Price Deflator relating to *Gross Fixed Capital Formation - State and Local Government* (Reference - ABS National Income, Expenditure and Product 5206.0) do not include wholesale sales tax at the moment and will not include GST in the future.

To revalue government non-current assets, the following process is undertaken -

- obtain the Implicit Price Deflator (IPD) for the most recent twelve-month period;
- identify the line item in the IPD described as Gross Fixed Capital Formation - State and Local Government;
- calculate the average of this line item for the four quarters of the year;
- compare the average figure for government capital expenditure calculated above with that of the previous year;
- express the result as a percentage change over the previous year; and
- use the percentage calculated as the asset revaluation index.

### Using Contractors - A Guide for Project Managers

The Office of the Public Service Commissioner recently released a Guide entitled *Using Consultants – A Guide for Project Managers*. The Guide is designed to complement the State Purchasing Policy, the Quick Guides and agency local instructions concerning the use of consultants.

It emphasises the operational aspects of selecting and using contractors from the perspective of a consultancy project manager, particularly for those with little or no experience using the services of professional consultants.



The Guide contains information from hiring through to the evaluation of consultants including:

- definition of a consultant;
- when to use a consultant;
- identifying and searching for information about consultants;
- preparing the consultancy project specifications;
- inviting offers;
- understanding consultancy costs;
- selecting a consultant;
- managing the project; and
- evaluating the consultancy project.

## What's New in Accounting ?

### Restructuring of Accounting Standard Setting

Changes to the process for setting corporate reporting rules, contained in the Federal Government's Corporate Law Economic Reform Program (CLERP), were proclaimed on 1 January 2000. The CLERP reforms represent an attempt to ensure the involvement of a broad range of parties including business in the standard setting process.

The key changes to the standard setting structure include –

- creation of a Financial Reporting Council (FRC);
- the appointment of a full-time chairman to the FRC;

- establishment of an independent staff for the Australian Accounting Standards Board in the form of a secretariat;
- a requirement for the standard setters to produce a cost-benefit analysis for accounting rules; and
- an objective to bring Australian accounting rules into line with international accounting standards.

The FRC fulfils certain functions previously performed by either Federal Treasury or the two accounting bodies (CPA Australia and the Institute of Chartered Accountants) through the Foundation Board of Management that administers the Australian Accounting Research Foundation (AARF). The FRC is broadly representative of most groups in the community affected by corporate reporting, including organisations such as the Australian Institute of Company Directors, the Business Council of Australia and the Australian Securities and Investments Commission.

FRC members now have the responsibility of selecting and appointing the board members of the AASB. The Chairperson will be appointed by the Federal Treasurer, however, consultation will occur with the FRC board members.

The FRC, which has thirteen members, has the power to review and approve the AASB standard setting agenda.

## New and Revised Accounting Standards

*Following is a brief description of recently revised accounting standards. To obtain a full appreciation of the effect of these changes, it is recommended that the relevant standard should be read in its entirety.*

### AAS 1/AASB 1018 - Statement of Financial Performance

The revised Standard was issued in October 1999. The principal elements of the revised Standard include-

- prescription of a format for the Statement of Financial Performance;

- disclosure, as a separate component of the Statement, of those revenues, expenses and valuation adjustments required by a Standard to be recognised directly in equity;
- expenses from ordinary activities to be classified and disclosed either by nature or by function;
- disclosure of revenues and expenses from ordinary activities which are of such a size, nature or incidence that disclosure is relevant in explaining the financial performance of the entity for the period (the term "abnormal item" is no longer used); and
- prescription of the recognition and disclosure requirements for revisions to accounting estimates and fundamental errors.

#### *Operative Date –*

*AAS 1 Reporting periods beginning on or after 1 July 2000*

*AASB 1018 Financial years ending on or after 30 June 2001*

### **AAS 10/AASB 1010 Recoverable Amount of Non-Current Assets**

This revised standard is to be read in conjunction with the new AAS 38/AASB 1041 *Revaluation of Non-Current Assets*.

The Standard applies to non-current assets measured on the cost basis.

The Standard requires the carrying amounts of non-current assets to be written down to their recoverable amount when their carrying amount is greater than their recoverable amount.

The 'recoverable amount' of an asset is defined as **"the net amount that is expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal"**.

The Standard excludes not-for-profit entities from the requirement to write down to their recoverable amount, assets which are not held for the primary purpose of generating net cash inflows. A not-for-profit entity is defined as an entity whose financial objectives do not include the generation of profit.

The standard requires disclosure of -

- the carrying amounts of non-current assets written down to their recoverable amount;
- the amounts of recoverable amount write-downs; and
- the accounting policies applied in respect of the method of determining recoverable amount.

Where net cash flows are discounted to their present value when measuring the recoverable amount of non-current assets, disclosure of the relevant assumptions made must include the discount rate used.

Measurement of a non-current asset at cost includes measuring at *deemed cost*. A class of non-current assets is measured at deemed cost where the entity, under the transitional provisions of AAS 38 *Revaluation of Non-Current Assets*, elects to deem the opening revalued carrying amount of assets to be cost, for the purpose of reverting to the cost basis of valuation as at the date of first applying AAS 38.

As the Standard applies to non-current assets measured on the cost basis, any recoverable amount write-downs are to be recognised as expenses in net profit or loss or net result.

It is expected that this Standard will be further revised as a result of Exposure Draft 99 – Impairment of Assets.

*Operative Date –*

*Accounting periods beginning on or after 1 July 2000*

### **AAS 33/AASB 1033 Presentation and Disclosure of Financial Instruments**

The revised standards clarify that financial instruments that mandatorily convert to equity instruments of the issuer, regardless of the type of equity instruments that will be issued by the issuer, must be classified as a financial liability. This is only to the extent that the holder is not exposed to changes in the fair value of the equity instrument prior to the date when the number of equity instruments to be issued can be determined.

*Operative Date –*

*Financial years ending on or after 31 December 2000*

*Half-years ending on or after 30 June 2000*



### **AAS 35/AASB 1037 Self-Generating and Regenerating Assets (SGARAs)**

These new standards apply in respect of inventory, depreciation and leases for SGARAs that are held primarily for profit and to exclusive rights obtained through leases or other arrangements.

They do not apply to SGARAs held for the primary purpose of aesthetics, heritage, ecology, the environment, or recreation.

The standard requires SGARAs to be valued at net market value at each reporting date.

*Operative Date –*

*Applies to financial years ending on or after 30 June 2001, but may be applied earlier*

### **AAS 36/ AASB 1040 Statement of Financial Position**

The key features of this standard include -

- Current assets and liabilities are to be presented separately from non-current assets and liabilities, unless the order of liquidity provides more relevant and reliable information.
- Assets are to be classified according to their nature or function and liabilities and items of equity are to be classified according to their nature.
- The standard requires that errors be corrected in the reporting period in which they are discovered and there are also specific disclosure requirements in relation to fundamental errors.
- It prescribes the items to be disclosed on the face of the statement of financial position and specifies other disclosures to be made in respect of assets, liabilities and equity items.
- There is also the requirement that a long-term interest bearing liability due within 12 months of the reporting date continue to be classified as non-current when the entity has agreed to finance the obligation on a long-term basis.

*Operative Dates –*

*AAS 36 Reporting periods beginning on or after 1 July 2000*

*AASB 1040 Financial years ending on or after 30 June 2001*

## AAS 37/AASB 1034 Financial Report Presentation and Disclosures

AAS 37 is a new accounting standard which is primarily directed at general principles concerning the notes to the financial report and other note disclosures.

The Standard specifies the general requirements for the presentation of a financial report.

AASB 1034 applies to all entities required to prepare financial reports under the Corporations Law and not just to reporting entities. Those Corporations Law entities applying the current AASB 1034 are required to apply the replacement Accounting Standards AASB 1040, AASB 1018 and AASB 1034.

New methodology requirements have been introduced for currency, notes, consistency and changes in presentation format, comparatives, and the franking account.

It requires the disclosure of additional information if that information is necessary to enable assessment of the entity's financial position and performance.

Specific disclosures are required in relation to -

- an entity's operations;
- audit;
- economic dependency;
- dividends;
- franking credits; and
- comparative financial and narrative information.

### **Operative Dates –**

**AAS 37 Reporting periods beginning on or after 1 July 2000**

**AASB 1034 Financial years ending on or after 30 June 2001**

## AAS 38/AASB 1041 Revaluation of Non-Current Assets

This standard must be read in conjunction with the revised AAS 10/AASB 1010 *Recoverable Amount of Non-Current Assets*. These two standards replace the previous AAS 10 *Accounting for the Revaluation of Non-Current Assets*.

### **Valuation Methodology**

The Standard requires the use of either the cost basis or the fair value basis to measure a class of non-current assets, subsequent to the initial recognition of the assets.

Fair Value is defined as “the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction”.



The Standard requires that, where the fair value basis is applied, revaluations must be made with sufficient regularity to

ensure that the carrying amount of each asset in the class does not differ materially from its fair value at the reporting date.

The above requirement does not override the provisions of AAS 27 *Financial Reporting by Local Governments* and AAS 29 *Financial Reporting by Government Departments* concerning the measurement of assets acquired at no cost or for nominal consideration.

### **Accounting for Revaluations**

Section 6 of the Standard prescribes the treatment of revaluation increments and revaluation decrements.

The balance of an asset revaluation reserve in respect of a class of non-current assets must only be credited with revaluation increments recognised for assets within the same class of non-current assets in accordance with paragraph 6.2 of the Standard.

Where depreciable assets are revalued, any balances of accumulated depreciation existing as at the revaluation date in respect of those assets must be credited to the asset accounts to which they related. The asset accounts must then be increased or decreased by the amount of the revaluation increment or decrement.

However, where an entity revalues depreciable assets by reference to current prices for assets newer than those being revalued, and adjusts those amounts to reflect the present condition of the assets, it may restate separately the gross amounts and related accumulated depreciation of the assets comprising the class of revalued assets.

An entity is prohibited from reverting from a revaluation basis to the cost basis for measuring a class of non-current assets, other than on initial adoption of the Standard.

### Accounting for Disposals

The Standard requires the gain or loss on disposal of a non-current asset to be measured as the difference between the carrying amount and the net proceeds from disposal.

### Disclosure Requirement

Where the fair value basis is applied in measuring a class of non-current assets, the financial report must disclose in respect of each class of revalued non-current assets the method(s) used in determining fair values, and whether the revalued carrying amount has been determined in accordance with an independent valuation.

Where a local government or government department recognises a class of non-current assets that is measured on the fair value basis and includes assets that are not measured at fair value, its financial report must disclose the aggregate carrying amount of each of the following –

- assets within that class which are carried at fair value, less, where applicable, any accumulated depreciation;
- assets within that class which are not carried at their fair value, less, where applicable, any accumulated depreciation; and
- the basis or bases of valuation applied in respect of each amount disclosed in accordance with the above two points.

The financial report must disclose, in relation to each class of non-current assets, a reconciliation of the carrying amount at the beginning and end of the reporting period, showing -

- additions;
- disposals;
- acquisitions through acquisitions of entities or operations;
- the net amount of revaluation increments less revaluation decrements;

- recoverable amount write-downs recognised in accordance with AAS 10 - *Recoverable Amount of Non-Current Assets*;
- reversals of recoverable amount write-downs;
- depreciation expense; and
- other movements.

Transitional Provisions for Public Sector Entities –

- Public sector entities which do not choose to record their assets on the cost basis under paragraph 10.1 of the Standard have up until 30 June 2002 to comply with the requirements of the Standard. Transitional provisions under paragraph 10.7 apply up until that time.
- In relation to the frequency of revaluations of property, plant and equipment, transitional provisions apply to public sector entities up until 30 June 2005 (paragraph 10.9).

There are specific transitional provisions included in the standard.

*Operative Date –*

***1 July 2000 - May implement earlier, but must apply BOTH AAS 38/AASB 1041 and AAS 10/AASB 1010***

### **AAS 27A, AAS 29A and AAS 31A Amendments to Transitional Provisions**

#### **AAS 27A**

Amends AAS 27 to extend the Standard's previous transitional provisions in relation to the recognition and valuation of land under roads. The amended transitional provisions in AAS 27 now permit a local government to elect not to recognise land under roads as assets until the end of the first reporting period ending on or after 31 December 2002. A reliable method of measuring land under roads is unlikely to be identified and accepted before the previous transitional provisions expire.

This amendment also removed those transitional provisions that had elapsed due to the passage of time.

## AAS 29A and AAS 31A

Similar amendments have been made to the transitional provisions in AAS 29 and AAS 31.

In addition, certain transitional provisions contained in AAS 29 and AAS 31 have been withdrawn as they have been superseded by similar provisions in AAS 38 *Revaluation of Non-Current Assets*.

**Operative Date –**

*These three Standards apply to reporting periods ending on or after 31 December 1999*

## Accounting Exposure Drafts

### ED 99 Impairment of Assets

An asset's recoverable amount need only be measured where there is an indication that the asset's carrying amount may exceed its recoverable amount. An impairment loss must be recognised whenever the asset's carrying amount exceeds its recoverable amount.

An impairment loss must be recognised in the net profit or loss/operating result as an expense.

For assets other than goodwill, an impairment loss recognised in a previous reporting period for an asset should be reversed only where the asset's recoverable amount has risen above its carrying amount.

Where impairment losses are recognised or reversed, certain information must be disclosed:

- By class of assets; and
- For each reportable segment within the entity's primary segment reporting format.

*Comment closes – 30 June 2000*



### ED 100 Arrangements for the Provision of Public Infrastructure by Other Entities Disclosure Requirements

This ED proposes standards for certain disclosures by a public sector reporting entity in relation to arrangements for the provision of public infrastructure to it, or to members of the community on its behalf, by private sector entities or other public sector entities.

The proposed disclosures are additional to those required by Accounting Standards or proposed in other exposure drafts.

*Comment closes – 31 May 2000*

## Urgent Issues Group (UIG) Update

### Abstract 27 - Designation as Hedges - Sold (Written) Options

A combination of a sold option or an arrangement which involves a sold option will qualify as a hedge if there is as much potential for a gain as exposure to a loss over the range of possible outcomes.

*Operative Date - Reporting periods ending on or after 31 December 1999*

### Abstract 28 - Consolidation - Special Purpose Entities

Special purpose entities (SPE) must be consolidated when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity.

*Operative Date - Reporting periods beginning on or after 24 June 1999*

### Abstract 29 - Early Termination of Interest Rate Swaps

Gains and losses arising on the early termination of interest rate swaps should be deferred and included on a systematic basis in the measurement of the underlying hedged interest transactions, if they are still expected to occur. Otherwise, recognise immediately in Operating Statement.

*Operative Date - Reporting entities for reporting periods ending on or after 4 November 1999*

### **Abstract 30 - Depreciation of Long-lived Physical Assets Including Infrastructure Assets: Condition Based Depreciation and Other Related Methods**

The Abstract discusses whether condition based depreciation and other methods of depreciating long-lived assets (including infrastructure assets) comply with Accounting Standards AASB 1021/AAS 4 *Depreciation*.

Condition-based depreciation and other methods of depreciation which include any of the following characteristics, do not comply with AAS4 and must be discontinued –

- The depreciation expense is not determined by reference to the depreciable amount of the asset.
- The depreciation expense is determined without consideration of technical obsolescence, potential changes in consumer demand and related factors which can influence the consumption or loss of future economic benefits during the reporting period.
- Expenditure on maintenance and on enhancement of future economic benefits are not separately identified where reliable measures of these amounts can be determined, and are not recognised as an expense/asset of the relevant reporting period.
- The asset is presumed to be in a steady state and a “renewals accounting” approach is adopted where all expenditure on the asset is expensed.
- The major components of complex assets are not separately identified and are not accounted for as separate assets where this is necessary to reliably determine the depreciation expense of the reporting period.

**Operative Date - Reporting periods ending on or after 16 December 1999**

### **Abstract 31 - Accounting for GST**

The Abstract provides that –

- Revenues, expenses and assets must be recognised net of GST. The exception is where the amount of GST incurred by a purchaser is not recoverable from the ATO. In this case, the

GST must be recognised as part of the cost of acquisition of an asset or as part of an item of expense.



- Receivables and payables must be reported inclusive of GST.
- The net amount of GST recoverable from, or payable to the ATO must be included as part of receivables or payables in the Statement of Financial Position.
- Cash flows must be included in the statement of cash flows on a gross basis (inclusive of GST).
- The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the ATO must be classified as operating cash flows.
- Costs incurred in developing, updating and implementing accounting systems for the GST are recognised as assets only when they result in an enhancement of future economic benefits.

**Operative Date - Reporting periods ending on or after 16 December 1999**

### **Abstract 32 - Designation as Hedges – Rollover Strategies**

Rollover strategies could qualify as hedges of longer-term financial exposures arising from anticipated purchases or sales of goods or services, including commodities, when the rollover strategy is expected to be effective as a hedge and is prospectively designated as a hedge.

The abstract explains that a rollover strategy normally would not be regarded as an effective hedge unless it is intended that the strategy will be continued for the full term of the exposure and it is probable that the hedge transactions can be replaced upon maturity as required.

**Operative Date - Reporting periods ending on or after 16 December 1999**

## What's New in Auditing?

### New and Revised Auditing Standards

#### AUS 504 External Confirmations

The standard has been revised and reissued to provide guidance on the use of confirmations in general.

The standard -

- has been amended to give due recognition to the audit risk model; and
- recognises that the use of confirmations requires an assessment as to whether their use is an effective way of obtaining sufficient appropriate audit evidence to support assertions in the financial report.

*Operative Date - Reporting periods commencing on or after 1 July 2000*

#### AUS 518 Related Parties

This standard takes into account recent changes in Standards in other countries. It includes –

- revised guidance to reflect a more detailed and explicit implementation of the “audit risk” approach to related parties; and
- a number of changes to the mandatory basic principles and essential procedures.

The revised standard more clearly identifies the auditor’s responsibility under the “audit risk” approach when applied to related parties.

*Operative Date - Reporting period commencing on or after 1 July 2000*

### Other Auditing Publications

The following publications have been issued and are available for reference -

#### Auditing Guidance Statements

- AGS 1048 *Special Considerations in the Audit of Small Entities*
- AGS 1050 *Audit Issues Relating to the Electronic Presentation of Financial Reports*

- AGS 1052 *Special Considerations in the Audit of Compliance Plans of Managed Investment Funds.*

#### Audit and Assurance Alerts

- Alert 5 *Electronic Reporting and Continuous Assurance Engagements*
- Alert 6 *Auditors’ Responsibilities in Relation to Reporting Contraventions of the Corporations Law*
- Alert 8 *Electronic Commerce and its Impact on Audits*

### Auditors’ Responsibilities in Relation to Reporting Contraventions of the Corporations Law

Section 311 of the Corporations Law has been revised. An auditor conducting an audit or review is now required to notify the Australian Securities and Investment Commission (ASIC) in writing if the auditor “has reasonable grounds to suspect” that a contravention of the Law has occurred which otherwise has not been or will not be adequately dealt with in the auditor’s report or by bringing it to the attention of the directors. An example of such a matter is when an annual general meeting has not been held within the relevant period, as required by the Law. Under the previous section, reporting to ASIC was only required when the auditor was “satisfied” that there had been a contravention of the Law.

Section 311 does not impose an obligation on auditors to actively look for contraventions of the Law. However, if an auditor finds an irregularity during the course of an audit, the auditor is required to consider the significance of the findings and report the matter in the manner required by the Law if the auditor has reasonable grounds to suspect that a contravention has occurred.

Auditors must therefore consider facts or evidence which would lead a reasonable auditor to hold a suspicion that a contravention has occurred. Auditors should look at the circumstances with which they are

confronted and ask whether a reasonable auditor, looking at those circumstances, would form the opinion that a contravention of the Law may have occurred.

In complying with the above requirements, auditors must be able to demonstrate that they have asked questions of directors or considered the impact of any comment in the audit report, before forming the belief that the contravention could not be adequately dealt with in the auditor's report or by raising the matter with the directors.

Further discussion on this matter is contained in *Audit and Assurance Alert No 6*.

*Source: Standard, Issue 4, 1999, pp 29-30*

## Guidelines for Audit Committees

Queensland Treasury has published *Audit Committee Guidelines – Improving Accountability and Performance* which provides comprehensive information in relation to the establishment and operations of an audit committee in the Queensland public sector.

The publication outlines four core responsibilities of an Audit Committee including -

- assess and contribute to the audit processes related to the identification of risks and threats to the agency, taking into account the environment, financial and other, in which the agency operates and its performance management framework;
- assess and enhance the agency's corporate governance, including its systems of internal control, risk management and internal audit activities;
- evaluate the quality and facilitate the practical discharge of the internal audit function, particularly in the areas of planning, monitoring and reporting; and
- through the internal audit function, oversee and appraise the agency's financial and operational reporting.

## Duties of the Audit Committee

As part of their duties, the Audit Committee should -

- perform an assessment of the Agency Internal Control Structure and obtain reasonable assurance that the internal controls are of a high standard and that they are cost effective and functioning as intended;
- assess the risk of fraud against the agency including factors such as whether management has discharged its financial and operational reporting duties prudently and with due care and diligence;
- promote and apply a culture of ethical conduct;
- carry out regular assessment in relation to current and emerging issues, to ensure that the committee is aware of what is happening within the agency as well as potential risks or threats in the foreseeable future;
- provide reasonable assurance to the accountable officer or statutory body that the 'corporate health' of the agency remains sound;
- ensure that internal audit periodically appraises the currency of the FMPM;
- undertake Business Continuity Planning to ensure that the agency's operations are addressed adequately in the audit planning cycle;
- ensure through internal audit that the systems of internal control that underpin the performance management framework of the agency remain robust; and
- conduct an independent review of financial and operational reporting prior to final attestation of the reports.

The Charter should include provisions concerning –

- the role and responsibilities of the Committee;
- the membership of the committee; and
- its relationship with the accountable officer or statutory body, the internal audit function and external audit.

*Source: Audit Committee Guidelines, Queensland Treasury, January 2000*



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QAO in-charge auditors are usually the first point of contact for technical matters. QAO Technical Services Unit provides technical and policy advice to QAO in-charge auditors and staff.

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### QAO Best Practice Guidelines and Other Publications

#### Recent publications —

- **INFORM Issue 3 (June 99)**
- **INFORM Issue 2 (Feb 99)**
- **Best Practice Guidelines – Information Systems (Revised) (Feb 2000)**
- **Consideration for Better Management of General Procurement Practices (Jan 99)**
- **Best Practice Guidelines for the Sale of Material Public Sector Assets (Jan 99)**
- **Guidelines – AAS 34 /AASB1036: Borrowing Costs (Dec 98)**
- **INFORM Issue 1 (Sept 98)**

#### Existing Publications —

- **Guidelines – AAS33/ AASB 1033: Presentation and Disclosure of Financial Instruments (Jul 98)**
- **Guidelines for the Implementation of New Generation QGFMS (SAP R/3) (Jun 98)**
- **Our Audit Process (Jan 98)**
- **Guidelines for Dealing with Reportable Gifts – Including Hospitality and Entertainment (Oct 97)**
- **Guidelines on AAS29 – Financial Reporting by Government Departments (Nov 96)**
- **QAO Auditing Standards (Jul 96)**
- **Guidelines for the Conduct of Audits of Performance Management Systems (Mar 95)**

These publications are available free of charge and may be obtained by ringing QAO on (07) 3405 1100 or by accessing our web site.